

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Mancelona Area Water & Sewer Authority		County Antrim	
Fiscal Year End December 31, 2005		Opinion Date April 4, 2006		Date Audit Report Submitted to State May 30, 2006			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


of
the
no

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) J L Stephan Co, PC			Telephone Number 231-941-7600	
Street Address 862 E. Eighth St.			City Traverse City	State MI
			Zip 49686	
Authorizing CPA Signature 		Printed Name Jerry L. Stephan		License Number 1101010359

**Mancelona Area Water
and Sewer Authority**

*Antrim County Michigan
Audited Financial Statements*

For the Year Ended December 31, 2005

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FINANCIAL SECTION



J L Stephan Co PC

Certified Public Accountants

Jerry L. Stephan, CPA

Marty Szasz, CPA
David Skibowski, Jr., CPA

INDEPENDENT AUDITOR'S REPORT

Mancelona Area Water and Sewer Authority
PO Box 940
Mancelona, MI 49659

We have audited the accompanying financial statements of the business-type activities of the Mancelona Area Water and Sewer Authority as of and for the year ended December 31, 2005 as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with accounting standards generally accepted in the United States of America. These standards require that we plan and perform the audit to provide reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of December 31, 2005 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United State of America.

The accompanying statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of the basic financial statements.

April 4, 2006

Mancelona Area Water and Sewer Authority*Exhibit A*

*Proprietary Fund
Statement of Net Assets
December 31, 2005*

	<u>Water System</u>
Assets	
<i>Current Assets</i>	
Cash-Unrestricted	\$ 136,050
Cash on Hand	300
Due from County	196
Accounts Receivable	79,222
<i>Total Current Assets</i>	<u>215,768</u>
<i>Non-current Assets</i>	
Cash-Restricted	211,140
Special Assessment Receivable - Principal	2,337,756
Special Assessment Receivable - Interest	98,067
Capital Assets - net	8,659,685
<i>Total Non-current Assets</i>	<u>11,306,648</u>
 <i>Total Assets</i>	 <u>11,522,416</u>
 Liabilities	
<i>Current Liabilities</i>	
Accounts Payable	39,782
Escrow Payable	1,172
Current Portion of Long-Term Liabilities	144,733
<i>Total Current Liabilities</i>	<u>185,687</u>
<i>Long-Term Liabilities</i>	
Capital Lease Payable - Truck	15,901
Capital Lease Payable - Meters	275,645
Bonds Payable	2,455,000
Current Portion - Capital Leases	(29,733)
Current Portion - Bonds Payable	(115,000)
<i>Total Long-Term Liabilities</i>	<u>2,601,813</u>
 <i>Total Liabilities</i>	 <u>2,787,500</u>
 Net Assets	
Invested in Capital Assets - net of debt	8,659,685
Restricted for Construction	413
Restricted for Capital Improvements	20,083
Restricted for Escrow Payment	1,172
Restricted for Debt Payment	189,472
Unrestricted	(135,909)
 <i>Total Net Assets</i>	 <u>\$ 8,734,916</u>

The Notes to Financial Statements are an integral part of this statement

Mancelona Area Water and Sewer Authority*Exhibit B*

*Proprietary Fund
Statement of Revenue, Expenses
and Changes in Net Assets
For the Year Ended December 31, 2005*

	<i>Water System</i>
<i>Operating Revenues</i>	
Water Sales	\$ 472,703
Other Charges and Fees	53,358
<i>Total Operating Revenues</i>	<u>526,061</u>
<i>Operating Expenses</i>	
Operating Supplies	17,283
Office Supplies	7,239
Contractual Services	
Administration & Engineering	231,505
System Operation	35,927
Professional Fees	13,045
Communications	8,100
Vehicle	4,725
Printing & Publishing	1,195
Dues & Fees	1,932
Software Support	2,214
Insurance	9,974
Utilities	41,351
Repairs & Maintenance	88,012
Rentals	8,214
Depreciation	272,829
Other	-
<i>Total Operating Expenses</i>	<u>743,545</u>
<i>Operating Income (Loss)</i>	<u>(217,484)</u>
<i>Non-Operating Revenues (Expenses)</i>	
Special Assessment Interest Revenue	111,774
Bank Interest Earned	4,992
Bond Fees	(27,239)
Other Special Assessment and Bond Costs	(13,805)
Interest Expense - Leases	(12,720)
Interest Expense - Bonds	(83,924)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(20,922)</u>
<i>Income (Loss) before Capital Contributions and Transfers</i>	<u>(238,406)</u>
Capital Contributions	<u>74,214</u>
 <i>Change in Net Assets</i>	 (164,192)
 Net Assets - Beginning of Year	 <u>8,899,108</u>
 Net Assets - End of Year	 <u><u>\$ 8,734,916</u></u>

The Notes to Financial Statements are an integral part of this statement

Mancelona Area Water and Sewer Authority

Notes to Financial Statements

December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Mancelona Area Water & Sewer Authority have been prepared in accordance with generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

A. Reporting Entity

A Board of Trustees consisting of members from Custer and Mancelona Townships organized the Mancelona Area Water Authority in March of 2000. In 2001, the Village of Mancelona joined the authority. Each local governmental unit member has representation within the Authority. The mission of the Mancelona Area Water and Sewer Authority (MAWSA) is to provide safe water in order to protect public health and the local economy in response to local groundwater contamination.

The criteria established by Statement 14 of the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements are based primarily on the concept of financial accountability. On this basis, accordingly, no required organizations have been omitted from these financial statements.

B. Government –Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Mancelona Area Water and Sewer Authority

Notes to Financial Statements

December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The authority is a single purpose governmental unit and reports all of its activities in the following major proprietary fund:

Enterprise Funds - Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The Water Fund is operated with the intention that the cost of providing water services to the public will be financed or recovered primarily through charges to users.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business type activities.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary fund relates to charges to customers for sales and services, including tap fees intended to recover current costs such as labor and material to hook up new customers. The portion of charges intended to recover the cost of the infrastructure is recognized as non-operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Accounts Receivable - Accounts Receivable are recorded in the Water Fund at the time customers are billed for current services. Uncollected delinquent accounts are placed on the customer's tax bill in the summer. The County purchases any amounts not collected by the Authority.

Capital Assets – Capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Generally, capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Mancelona Area Water and Sewer Authority

Notes to Financial Statements

December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Depreciation and amortization are computed by the straight-line method. The Authority records depreciation and amortization in its Water Fund. Estimated useful lives for depreciable and amortizable assets are as follows:

Water System	40 years
Bond Issue Costs	20 years
Start up Costs	5 years
General Equipment	5-7 years

In 2005, the Authority reviewed the estimated lives of its water system assets. It was determined 40 years was more appropriate estimated useful life for these assets. Prior depreciation was based on an estimated life of 25 years. Current depreciation is based on a 40 year life and no adjustment was made to prior depreciation.

Long-Term Obligations - In the proprietary fund statement, long-term debt and other long-term obligations are reported as liabilities in the applicable proprietary fund type statement of net assets. Bonds payable are reported net the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

A budget is adopted for operational purposes of the Water Fund on an annual basis. However, budgets are not required for either Debt Service or Proprietary Funds. Consequently, no budgetary information is provided with these financial statements.

B. Investment Policy

P.A. 196 of 1997 requires all local units to adopt a written investment policy and to provide a copy of this policy to all financial institutions used by the unit. The Authority does not have an investment policy.

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. Legal or Contractual Provisions for Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Mancelona Area Water and Sewer Authority

Notes to Financial Statements

December 31, 2005

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS – continued

B. Types of Deposits and Investments

At year-end, the Authority's deposits were reported in the financial statements in the following categories.

	<i>Business-Type Activities</i>
Cash & Cash Equivalents	\$ 136,050
Investments	-
Restricted Assets	<u>211,140</u>
Total	<u>\$ 374,190</u>

The breakdown between deposits and investments are as follows:

	<i>Primary Government</i>
Bank Deposits (checking and savings)	\$ 374,190
Investments	-
Cash on Hand	<u>300</u>
Total	<u>\$ 374,490</u>

The Authority maintains all its surplus funds with a local bank in the form of savings/checking accounts. FDIC insurance coverage of \$100,000 per deposit applies separately to the demand and time deposits of a public unit. At December 31, 2005 the total deposits of the Authority amount to \$347,190, of which \$200,000 is covered by FDIC insurance.

Deposits are categorized into these categories of credit risk:

- Category 1 Insured or collateralized with securities held by the entity or its agent in the entity's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in entity's name.
- Category 3 Un-collateralized

	<u><i>Balance</i></u>	<u><i>1</i></u>	<u><i>2</i></u>	<u><i>3</i></u>
Cash Deposits	\$ 374,190	\$ 200,000	\$ -	\$ 147,190
Cash Equiv.	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 374,190</u>	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 147,190</u>

Mancelona Area Water and Sewer Authority

Notes to Financial Statements

December 31, 2005

NOTE 4 - SUMMARY OF LONG-TERM ASSETS

Long-Term Assets in the Water Fund as of December 31, 2005, are summarized as follows:

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Deletions</i>	<i>Ending Balance</i>
Custer TWP/Cedar River System	\$ 3,259,810	\$ -	\$ -	\$ 3,259,810
MDEQ System	5,186,408	74,213	-	5,260,621
Mancelona TWP System	110,710	-	-	110,710
Village of Mancelona System	735,317	292,445	-	1,027,762
General Equipment	26,896	-	-	26,896
Start Up Costs	133,902	-	-	133,902
Bond Issue Costs	<u>75,597</u>	<u>-</u>	<u>-</u>	<u>75,597</u>
Total Cost	9,528,640	366,658	-	9,895,298
Accumulated Depreciation/Amortization	<u>(962,784)</u>	<u>(272,829)</u>	<u>-</u>	<u>(1,235,613)</u>
Net Book Value	<u>\$ 8,565,856</u>	<u>\$ 93,829</u>	<u>\$ -</u>	<u>\$ 8,659,685</u>

NOTE 5 – SPECIAL ASSESSMENT RECEIVABLE

The Authority issued \$2,770,000 of “Adjustable Rate Demand Water Supply System Revenue Bonds, Series 2002” in April 2002 to pay for the acquisition and construction costs of the water system. A special assessment was levied on properties in Custer and Kearny Townships to service the bonds as they come due.

The Authority is a special purpose governmental unit engaging in a single purpose activity and, in accordance with GASB Statement #6; the Authority recorded the special assessment receivable, principal portion equal to the amount of the bonds. As discussed above, a portion of the special assessment received each year is used to reduce the amount of bond principal. The balance of the special assessment receivable, principal portion at December 31, 2005 is \$2,337,756.

Interest included on the 2005 tax roll was calculated using an estimated variable interest rate of 4.745%. Special assessment revenue recognized in 2005 includes the interest equal to the levy on the 2005 tax roll, which totaled \$111,774. The interest portion of the special assessment receivable at December 31, 2005 is \$98,067.

Mancelona Area Water and Sewer Authority

Notes to Financial Statements

December 31, 2005

NOTE 5 – SPECIAL ASSESSMENT RECEIVABLE – continued

The special assessments will be levied and recorded over a twenty year period according to the following as of December 31:

	<u>Principal</u>
2005	\$ 121,573
2006	138,511
2007	138,511
2008	138,511
2009	138,511
2010-2014	692,555
2015-2019	692,555
2020-2021	<u>277,029</u>
	<u>\$ 2,337,756</u>

The schedule above does not include interest that would be collected with the principal because the interest rate is variable and does not allow accurate measurement.

NOTE 6 - LONG-TERM DEBT

The following is a summary of transactions that occurred in bonds payable during the year ended December 31, 2005:

Beginning Balance	\$ 2,565,000
New Borrowing	-
Principal Paid	<u>110,000</u>
Ending Balance	<u>\$ 2,455,000</u>

Revenue Bonds

As part of the acquisition of the water system, the Authority assumed debt from the Village of Mancelona in the amount of \$45,000. The debt consisted of revenue bonds maturing through the year 2005. The bonds were retired in an indirect manner referred to as in-substance defeasance. The Authority deposited funds sufficient to extinguish the debt with an escrow agent. The US Treasury securities purchased with the funds are essentially risk free and mature at times and amounts sufficient to retire the debt. At December 31, 2005, the escrow balance was \$NIL.

Special Assessment Bonds

In April 2002, the Authority issued \$2,770,000 of "Adjustable Rate Demand Water Supply System Revenue Bonds, Series 2002" to pay for the acquisition and construction costs of the water systems.

Mancelona Area Water and Sewer Authority

Notes to Financial Statements

December 31, 2005

NOTE 6 - LONG-TERM DEBT - continued

Bond documents specify the debt service requirements are to be met using proceeds from a special assessment described in Note 6. Special assessment proceeds and debt service payments are recorded in the proprietary fund as is the outstanding debt. Even though the bonds are titled revenue bonds, the revenue generated by the water systems is to be used only in the event of default. It is anticipated the special assessments will cover the debt requirements.

The bonds are due in nineteen annual principal installments ranging from \$100,000 to \$200,000 beginning April 1, 2003. The bonds initially bear a variable interest rate of 1.55%. In December 2004, the Authority locked the interest at 3.29%

Amount required to amortize Special Assessment Bonds at December 31, 2005:

	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2006	\$ 115,000	\$ 92,063	\$ 207,063
2007	120,000	87,750	207,750
2008	125,000	83,441	208,441
2009	130,000	78,382	208,382
2010	135,000	73,687	208,687
2011-15	740,000	290,074	1,030,074
2016-20	890,000	140,110	1,030,110
2021	<u>200,000</u>	<u>7,483</u>	<u>207,483</u>
	<u>\$ 2,455,000</u>	<u>\$ 825,990</u>	<u>\$ 3,307,990</u>

NOTE 7 – CONTRIBUTED CAPITAL

The following is a summary of contributed capital toward the water system of the Authority at December 31, 2005:

Michigan Department of Environmental Quality	\$ 6,576,812
Custer & Kearny Townships	2,770,000
Mancelona Township	217,556
Village of Mancelona	<u>155,748</u>
Total Contributed Capital	<u>\$ 9,720,116</u>

NOTE 8 - LEASING ARRANGEMENTS

The Authority subleases its office space from Northwestern Michigan Community Health Agency. On January 1, 2004 the lease was renegotiated. The term is for 60 months with a beginning monthly payment of \$452.31 and an option for 3 five-year renewals. The lease can be adjusted annually for changes in prorated occupancy costs. Lease expense, which also includes prorated occupancy costs, was \$7,898 for the current year ended December 31.

Mancelona Area Water and Sewer Authority

Notes to Financial Statements

December 31, 2005

NOTE 8 - LEASING ARRANGEMENTS - continued

In December 2003, the Authority entered in to a capital lease with Daimler Chrysler Services for a 2004 Dodge Truck. The lease calls for 60 monthly payments of \$495.60 including interest at 4.02% per annum. At the end of the lease, the Authority will own the truck.

In April 2005, the Authority entered in to a capital lease with ORIX Public Finance to pay for new meter installation and materials for the Village of Mancelona water system. The lease calls for 120 monthly payments of \$3,175 including interest at 5.508% per annum.

The following is a summary of future minimum lease payments as of December 31, 2005.

	<i>Truck</i>	<i>Meter Installation</i>
2006	\$ 5,947	\$ 38,100
2007	5,947	38,100
2008	4,956	38,100
2009	-	38,100
2010	-	38,100
2011-15	-	<u>161,925</u>
	16,850	352,425
Less: Interest	<u>949</u>	<u>67,132</u>
	<u>\$ 15,901</u>	<u>\$ 285,293</u>

NOTE 9 - RISK MANAGEMENT

The Authority pays an annual premium to Michigan Municipal Underwriters for its general insurance coverage through the Michigan Township Participating Plan. The Authority carries coverage for property damage, liability, wrongful acts, automobile, crime, and inland marine claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 10 – RELATED PARTY TRANSACTIONS

The Authority contracts with the following entities for operational or construction purposes. The entities perform administrative and/or management services for the Authority. The following is a summary of transactions with the related parties as of and for the year ended December 31, 2005:

	<i>Costs Incurred</i>	<i>Amount Payable</i>
Gourdie/Fraser & Associates	\$ 206,525	\$ 15,741
Community Resource Development, Inc.	<u>68,876</u>	<u>5,254</u>
Total	<u>\$ 275,401</u>	<u>\$ 20,995</u>

Mancelona Area Water and Sewer Authority

Notes to Financial Statements

December 31, 2005

NOTE 10 – RELATED PARTY TRANSACTIONS - continued

The Authority's Treasurer is the branch manager and assistant vice president for the Mancelona National City Bank. The Authority maintains its bank accounts with National City Bank and the bank also services the debt of the Authority. In February 2006, a new, unrelated individual was instated as the Authority's Treasurer.

NOTE 11 – COMMITMENTS AND SUBSEQUENT EVENTS

The Authority is in the process of planning and constructing a water system expansion in Kearney Township. The Authority plans to sell approximately \$1,000,000 in bonds, supported by a special assessment, to pay for the expansion.

The Authority is also considering the construction of a sewer system in the Village of Mancelona. The construction is expected to be funded by various State and Federal grants and loans.

OTHER INFORMATION (UNAUDITED)

Mancelona Area Water and Sewer Authority

Comments and Recommendations

We have audited the combined financial statements of the Mancelona Area Water & Sewer Authority for the year ended December 31, 2005 and have issued our report thereon dated April 4, 2006. As part of our examination, we considered the Authority's internal control structure. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

In a continuing effort to improve the accounting system, financial reporting, and overall management, we offer the following comments and recommendations for you to consider.

Segregation of Duties

The office administrator performs duties such as billings, cash receipts and deposits and bank reconciliations that would normally be done by different individuals. We recognize the Authority is a small organization and it is difficult to separate these duties. We noted an attempt to separate some duties throughout the year and the office management should be commended for their efforts. However, we recommend someone other than the administrator consistently perform bank reconciliation and cross reference bank deposits and cash reconciliation with receipt tickets. This is a repeat comment from prior years.

Bank Reconciliation

We noted bank reconciliations are completed on a monthly basis. However, the reconciliation prepared each account is only reconciled to the bank balance, not the checkbook and general ledger balance. There was no listing of outstanding checks and deposits with any reconciliation. Consequently, we found a check outstanding since July of 2005. If a correct reconciliation had been prepared, the outstanding check could have been resolved before year-end. When preparing a correct reconciliation, outstanding checks and deposits are subtracted from and added to the bank balance to reconcile to the bank and checkbook balance which should be the same as the general ledger balance. If the accounting program does not provide the outstanding check and deposit listing, you may have to complete the reconciliation manually.

Investment Policy

The Michigan legislature passed Public Act 196 of 1997 that expanded the list of authorized investments and requires all local governmental units to adopt an investment policy. This law requires the Authority to adopt a comprehensive written investment policy. A copy of this policy must be provided to all financial institutions used by the Authority. The Authority has yet to adopt this required policy. This is a repeat comment from prior years.

Escrow Account

We noted fees charged to the escrow account were more than interest earned in 2005. The Authority does not have a policy regarding the payment or allocation of interest revenues and various bank fees to the depositors in the escrow account. We recommend the Authority establish a policy to allocate revenues and costs to the depositors or establish a new account for each new project for which the Authority holds fund in escrow.

Mancelona Area Water and Sewer Authority

Comments and Recommendations

Closing Comments

We are happy to discuss any of these recommendations and assist in their implementation. This report is intended solely for the information and use of the Mancelona Area Water and Sewer Authority, and others within the organization. We further appreciate the courtesy extended our field auditors in the conduct of this audit engagement. Should any questions arise regarding these statements or the conduct of our audit, please call us at your convenience.